

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EA-06 SWF-01 AID-05 CEA-01 CIAE-00

COME-00 EB-07 FRB-01 INR-05 NSAE-00 RSC-01 CIEP-01

SP-02 STR-01 TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01

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PASS TREASURY, FRG AND CEA

E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: FINANCIAL ISSUES FOR THE EC SUMMIT

REFS: A. EC BRUSSELS 9442

B. EC BRUSSELS 9192

C. LONDON 15588

D. EC BRUSSELS A-267, AUGUST 14, 1974

E. EC BRUSSELS 9187

1. SUMMARY: THE BRUSSELS AD HOC GROUP FOR THE SUMMIT HAS WATERED DOWN MOST OF THE SPECIFIC PROPOSALS WHICH THE FINANCE MINISTERS MADE FOR THE SUMMIT (SEE REF E). THE SUMMIT IS NOW EXPECTED TO CALL UPON THE MEMBER STATES TO IMPROVE THEIR ECONOMIC POLICY COORDINATION. MEMBER STATES REPORTEDLY GENERALLY AGREE THAT EFFORTS SHOULD BE MADE TO STRENGTHEN THE EUROPEAN MONETARY COORDINATION FUND, TO CONSIDER SMOOTHING OUT EC EXCHANGE RATE FLUCTUATIONS AGAINST
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THE DOLLAR AND TO UNDERTAKE SELECTIVE ECONOMIC EX-

PANISION. END SUMMARY.

2. COOPERATION ON ECONOMIC POLICY: MEMBER STATES AND THE COMMISSION ARE INCREASINGLY CONCERNED THAT GROWING ECONOMIC DIVERGENCE WILL CAUSE THE COMMUNITY TO BREAK DOWN. CONSEQUENTLY, DESPITE OBVIOUS LIMITATIONS, A MAJOR EFFORT IS EXPECTED TO BE MADE AT THE SUMMIT TO REASSERT THE EC'S COOPERATIVE APPROACH TOWARD ECONOMIC ISSUES. OFFICIALS IN THE FRG PERMANENT DELEGATION EXPECT THE FRG TO AGREE ON THE NEED FOR MORE GLOBAL REFLATION WITH THE CONDITION THAT DEFICIT COUNTRIES SHOULD ONLY TAKE SELECTIVE MEASURES IN EXPANDING THEIR ECONOMIES.

3. EUROCURRENCY AND BANKING OPERATIONS: THE FRG HAS PROPOSED THAT THE EC AGREE TO THE FOLLOWING: A) CENTRAL BANKS ACTING AS "LENDERS OF LAST RESORT" TO AVOID A COMMERCIAL BANK'S BANKRUPTCY; B) THE ESTABLISHMENT OF SOLVENCY RATIOS FOR BANKS; AND C) IMPROVEMENT OF THE SUPERVISION OF FOREIGN EXCHANGE OPERATIONS. THE UK, AMONG OTHERS, HAS TAKEN THE POSITION THAT THE SUMMIT IS THE WRONG FORUM FOR SUCH TECHNICAL PROPOSALS. THE AD HOC GROUP REPORTEDLY HAS AGREED THAT THERE SHOULD BE ONLY A GENERAL SUMMIT STATEMENT CALLING FOR IMPROVED EC COORDINATION OF BANKING AND EUROCURRENCY OPERATIONS. THE COMMISSION MAY PROPOSE A DRAFT BANKING DECREE BEFORE THE SUMMIT MEETING. IF THIS IS THE CASE, COMMISSION OFFICIALS WOULD LIKE TO OBTAIN THE SUMMIT'S APPROVAL TO ORGANIZE THE CONTACT GROUP OF CENTRAL BANKERS WHICH IS CALLED FOR IN THE PROPOSED DECREE (SEE REF D). THIS GROUP COULD THEN BEGIN TECHNICAL DISCUSSIONS ON SOME OF THESE PROPOSALS. THE AD HOC GROUP HAS REPORTEDLY AGREED THAT THE SUMMIT MIGHT ISSUE A STATEMENT CALLING FOR IMPROVED COORDINATION OF FOREIGN EXCHANGE OPERATIONS. SEVERAL SENIOR COMMISSION OFFICIALS INTERPRET THIS TO MEAN AN EC EFFORT TO SMOOTH OUT SHARP MOVEMENTS OF ITS CURRENCIES AGAINST THE DOLLAR. FOR EXAMPLE, CENTRAL BANKS MIGHT SUBSEQUENTLY AGREE TO ALLOW THEIR EXCHANGE RATES TO FLUCTUATE ONLY 1/2 OR 1 PERCENT PER LIMITED OFFICIAL USE

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DAY AGAINST THE DOLLAR. SUCH AN AGREEMENT WOULD REQUIRE DAILY CONSULTATION AND COULD BE SEEN AS THE PRECURSOR TO JOINT EC INTERVENTION AND GREATER COOPERATION BETWEEN THE "MINI-SNAKE" AND FREE FLOATING COUNTRIES.

4. EXPANSION OF FECOM: THE AD HOC GROUP HAS ALSO TENTATIVELY AGREED TO A PROPOSED SUMMIT STATEMENT

CONCERNING THE STRENGTHENING OF THE EUROPEAN MONETARY COOPERATION FUND (FECOM). FRANCE WANTS TO INCREASE THE FUND'S SHORT TERM MONETARY SUPPORT. THE "MINI-SNAKE" COUNTRIES LED BY GERMANY BLOCKED THIS PROPOSAL. THE FRG, INSTEAD, WANTS TO ESTABLISH A HIGH LEVEL GROUP OF CENTRAL BANKERS WITHIN FECOM TO DISCUSS COORDINATION OF EC CREDIT AND MONETARY POLICY. THE SUMMIT'S STATEMENT WILL BE REPORTEDLY AIMED AT IMPROVING THE FUND'S ROLE IN COORDINATING EC MONETARY POLICY.

5. GOLD: THE FRENCH ARE PRESSING HARD FOR THE EC TO REAFFIRM THE ZEIST GOLD AGREEMENT AND TO REVALUE GOLD RESERVES. OTHER MEMBER STATES, ESPECIALLY THE UK AND THE FRG, HAVE BLOCKED THESE EFFORTS. SO FAR THE AD HOC GROUP'S COMPROMISE AMOUNTS TO A PROPOSED SUMMIT STATEMENT CALLING ON MEMBER STATES TO COORDINATE THEIR POLICIES ON GOLD. MOST OBSERVERS, HOWEVER, EXPECT THE FRENCH TO TRY TO OVERTURN THIS COMPROMISE AT THE SUMMIT.

6. RECYCLING OF PETRO-DOLLARS: THE COMMISSION HAS UNDER CONSIDERATION SEVERAL POSSIBLE JOINT APPROACHES TOWARD RECYCLING (SEE REF. A).MYERSON

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